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S.A. 4

COLUMBIA CHARLESTON FLORENCE GREENVILLE

Haynsworth  
Sinkler Boyd, PA.

ATTORNEYS AND COUNSELORS AT LAW

1201 MAIN STREET, 22ND FLOOR (29201-3226)  
POST OFFICE BOX 11889 (29211-1889)  
COLUMBIA, SOUTH CAROLINA  
TELEPHONE 803.779.3080  
FACSIMILE 803.765.1243  
WEBSITE www.hsblawfirm.com

BELTON T ZEIGLER  
DIRECT DIAL NUMBER 803.540.7815  
EMAIL beltonzeigler@hsblawfirm.com

October 25, 2005

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**VIA ELECTRONIC AND U. S. MAIL**

Joseph M. Melchers, Esquire  
Chief Legal Advisor  
Public Service Commission of SC  
100 Executive Center, Suite 100  
Columbia, South Carolina 29210

RECEIVED

OCT 27 2005

PSC SC  
DOCKETING DEPT.

Re: SCE&G 2005 Gas Rate Case  
Docket No.: 2005-113-G  
HSB File No.: 4381.218

Dear Mr. Melchers:

Attached is a proposed order for the Commission's consideration embodying the Commission's directive of October 12, 2005, in this matter. The Office of Regulatory Staff has authorized me to state that they have reviewed this proposed order and consent to its entry.

Thank you for your consideration of this matter.

Sincerely,

Belton T. Zeigler

BTZ/abm

enclosures

- cc: Catherine D. Taylor, Esquire
- David A. McCormick, Esquire
- Mr. Frank Knapp, Jr.
- Mitchell Willoughby, Esquire
- Paige J. Gossett, Esquire
- Scott A. Elliott, Esquire
- Shannon B. Hudson, Esquire
- C. Lessie Hammonds, Esquire
- Florence P. Belser, Esquire

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OCT 26 2005

LEGAL DEPARTMENT  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA



docket would produce an increase in annual revenues of approximately \$28,482,731 and provide a return on common equity of 11.75 percent, according to the Company's calculations. SCE&G requested that the proposed increase go into effect for bills rendered on and after November 1, 2005 (i.e., the first billing cycle of November).

In its Application, the Company also proposed to maintain its market-based pricing flexibility under the Industrial Sales Program – Rider ("ISP-R") and to provide a new method of accounting for the margin revenues from interruptible sales. Under the proposed method, the net proceeds of interruptible service (less certain costs of interruptible service) would be credited to the demand charge component of the firm cost-of-gas calculation. The Company also proposed a methodology to account for revenue generated by the future release or remarketing of upstream transportation, storage and other assets at such time as its upstream supplier unbundles its merchant service. Under that methodology the Company would credit 75% of the net revenue received from such remarketing or release to the demand charge component of its firm cost-of-gas calculation and retain 25% outside of regulated revenues as an incentive for effectively remarketing these assets. The Company further proposed to collect and amortize Environmental Clean-up Costs ("ECC") through base rates rather than through the current volumetric ECC factor of \$0.008/ therm.

On May 18, 2005 the Commission's Docketing Department instructed the Company to publish a Notice of Filing and Hearing in newspapers of general circulation in the area affected by the Company's Application. The Notice of Filing and Hearing indicated the nature of the Company's Application and advised all interested Parties

desiring participation in the scheduled proceeding of the manner and time in which to file appropriate pleadings. The Company was also required to notify directly all customers affected by the proposed rates and tariffs. The Company furnished affidavits demonstrating that the Notice was duly published in accordance with the Docketing Department's instructions and certified that a copy of the Notice was mailed to each affected customer.

Petitions to intervene were received from the United States Department of Defense and Federal Executive Agencies ("DOD") represented by David A. McCormick, Esq., Mr. Frank Knapp, Jr. *pro se* ("Mr. Knapp"), and the South Carolina Energy Users Committee ("SCEUC") represented by Scott Elliott, Esq. The Office of Regulatory Staff ("ORS"), automatically a party pursuant to S.C. Code Ann. § 58-4-10(B), was represented by Shannon Hudson, Esq., C. Lessie Hammonds, Esq., and Florence P. Belser, Esq.

SCE&G was represented by Catherine D. Taylor, Esq., Patricia Banks Morrison, Esq., Belton T. Zeigler, Esq. and Mitchell M. Willoughby, Esq.

ORS made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other information concerning the Company's gas operations.

On August 10, 2005 ORS, on behalf of all parties informed the Commission that all Parties had entered into a comprehensive stipulation and Settlement Agreement ("Settlement"). The Settlement is attached hereto as Order Exhibit No. 1 and incorporated herein by this reference. Representatives of ORS, SCEUC, DOD, and SCE&G, along

with Frank Knapp, Jr., (collectively referred to as the “Parties”) were signatories of the Settlement. The Parties reached a comprehensive settlement on all issues and stipulated to an increase in the Company’s revenue of \$22,857,839 and a return on equity of 10.25%. Attached to the Settlement were the following Exhibits: Exhibit A, Testimony of Jay R. Jashinsky; Exhibit B, Testimony of Jimmy E. Addison; Exhibit C, South Carolina Electric & Gas Company Operating Experience – Total Gas for Test Year ended December 31, 2004 and Explanation of Accounting and Pro Forma Adjustments; and Exhibit D, Tariffs, Rate Schedules and Terms and Conditions of Service.

After reviewing the Settlement Agreement and related exhibits, the Commission issued a supplemental agenda for a specially called meeting. Following the special meeting, on August 23, 2005 the Commission issued a Directive (“Directive”) appointing Joseph Melchers as hearing officer and requesting additional information on the following from the Parties to the Settlement:

1. The rate of return of each customer class for the test year and the projected rate of return of each customer class listed in the Settlement Agreement, including information on any supporting data or calculations used in deriving the rates of return by customer class which may be helpful to the Commissioners in evaluating the agreed upon rate design.
2. A more detailed explanation of the new Residential Value Service Rate including the number or percent of customers projected to qualify for this program, with a particular focus on whether the projections consider the potential impacts of higher rates on consumption.
3. Provide information regarding the market factors that led to the creation of new Rate 33 and how the rate was derived.
4. A more detailed explanation of the modifications to the ISPR program, focusing on the rationale for changing the cost of gas component in the ISPR Program and how it was determined.

5. A more detailed explanation of the modifications to the Cost of Gas factor including the two-part Demand and Commodity rate structure and the calculation of monthly over and under collections.
6. Information on the physical work that remains for Environmental Clean-Up, with a focus on an explanation as to how the Company will ensure that consumers do not pay twice for Environmental Clean-Up during the transition from collecting these costs in the PGA to collecting them in base rates.
7. Supporting evidence to allow the Commission to evaluate the adjustments to depreciation rates.

The Parties filed testimony from Kenneth R. Jackson, Carey Flynt, and John Spanos in response to the Directive. Additionally, they submitted, as a supplemental exhibit, Exhibit No. KRJ-3 to Kenneth Jackson's testimony on September 16, 2005.

The Commission held a hearing on this matter on September 19, 2005. The Settlement Agreement and all exhibits thereto, including the testimony of witnesses Addison and Jashinsky, were introduced and accepted into the record at the hearing without cross-examination by any party. Witnesses Jackson, Flynt, and Jashinsky appeared and were examined by the Commission. At the request of two of the Commissioners, SCE&G also filed on September 21, 2005, Late-Filed Hearing Exhibit No. 4.

## **II.**

### **ADOPTION OF SETTLEMENT AGREEMENT**

Based on the stipulations and agreements contained in the Settlement, the testimony and exhibits attached to the Settlement, and the testimony submitted in response to the Directive, the Commission adopts, as a comprehensive compromise settlement on all issues, all terms and provisions of the Settlement as just and reasonable.

The Commission also specifically adopts as just and reasonable the rates and rate schedules, the Tariffs, and Terms and Conditions of Service attached as Exhibit D to the Settlement. The Settlement and all of its exhibits are hereby incorporated by this reference and made a part of this Order.

**II.**

**DEPRECIATION RATES**

In the Settlement, the Parties stipulated that “the Company should be permitted to record depreciation going forward based on the depreciation rates associated with individual plant accounts.” Settlement at p. 6. The Commission adopts the proposed adjustment to the depreciation rates and authorizes the Company to book depreciation going forward by individual plant account as reflected in Exhibit C to the Settlement.

**III.**

**ENVIRONMENTAL CLEAN-UP COST AMORTIZATION**

As the Settlement provides, SCE&G may continue to defer and collect environmental clean-up and response costs related to its Manufactured Gas Plant sites (“ECC Costs”) in the regulatory asset accounts it currently maintains pursuant to Order No. 94-1117, dated October 27, 1994. Until further order of this Commission, SCE&G may amortize the amounts reflected in these accounts by means of an annual amortization in the amount of \$1,428,827 and recognition of a annual amortization expense of that same amount.

**III.**

**NATURAL GAS RATE STABILIZATION ACT**

In the Application SCE&G elected to have the rates established in this proceeding come under the Natural Gas Rate Stabilization Act (“RSA”), S.C. Code §§ 58-5-400 *et. seq.* (2005). Pursuant to the RSA Section 58-5-420(1), the Commission is required to specify a range for SCE&G’s cost of equity that includes a band of fifty basis points (0.50 percentage points) below and fifty basis points (0.50 percentage points) above the cost of equity on which rates have been set. Based on the stipulations of all Parties in the Settlement, and the cost of equity of 10.25% therein established, the Commission specifies a range of 9.75% to 10.75% as the range of return on equity to be used in administering the provisions of the RSA for SCE&G until further order.

The RSA at Section 58-5-420(2) requires the Commission to make findings related to specific categories of revenue, expense and investment. All the required findings are set forth in Exhibit C of the Settlement which is incorporated as part of this Order.

**DECREE**

WHEREFORE, it is ordered:

1. That the Settlement entered into by all of the Parties to this docket is adopted as just and reasonable.

2. That South Carolina Electric & Gas Company shall implement the rates, charges, terms and conditions attached hereto as Order Exhibit No. 1, Exhibit D thereto, for bills rendered on and after the first billing cycle of November 2005.
3. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

\_\_\_\_\_  
Randy Mitchell, Chairman (SEAL)

ATTEST:

\_\_\_\_\_  
G. O'Neal Hamilton, Vice Chairman (SEAL)

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2005-113-G

IN RE: Application of South Carolina Electric & Gas ) CERTIFICATE OF  
Company for Adjustments in the Company's ) SERVICE  
Gas Rate Schedules and Tariffs )  
)  
)  
)

I hereby certify that on October 25, 2005, a copy of the Proposed Order Approving Settlement Agreement and Increase in Gas Rates and Charges was served on the parties listed below by sending a copy via electronic mail and U. S. mail at the addresses below:

Catherine D. Taylor, Esquire  
Patricia B. Morrison, Esquire  
SCANA Corporation  
Mail Code 130  
Columbia, South Carolina 29218  
cdtaylor@scana.com  
pmorrison@scana.com

David A. McCormick, Esquire  
Dept. of Defense & Federal Executive Agencies  
U. S. Army Legal Services Agency  
(JALS-RL)  
901 North Stuart Street, Room 713  
Arlington, Virginia 22203-1837  
David.McCormick@hqda.army.mil

Mr. Frank Knapp, Jr.  
118 East Selwood Lane  
Columbia, South Carolina 29212  
fknapp@knappagency.com

Mitchell Willoughby, Esquire  
Willoughby & Hoefler, P.A.  
Post Office Box 8416  
Columbia, South Carolina 29202-8416  
mwilloughby@willoughbyhoefler.com

Paige J. Gossett, Esquire  
Willoughby & Hoefler, P.A.  
Post Office Box 8416  
Columbia, South Carolina 29202-8416  
pgossett@willoughbyhoefler.com

Scott A. Elliott, Esquire  
Elliott & Elliott, P.A.  
721 Olive Street  
Columbia, SC 29205  
sellott@elliottlaw.us

Shannon B. Hudson, Esquire  
C. Lessie Hammonds, Esquire  
Florence P. Belser, Esquire  
Office of Regulatory Staff  
1441 Main Street, Suite 300  
Columbia, South Carolina 29201  
shudson@regstaff.sc.gov  
lhammon@regstaff.sc.gov  
fbelser@regstaff.sc.gov

  
Amelia B. McKie

Columbia, South Carolina

October 25, 2005.